

## Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-14 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

SAL-01 L-03 SCI-06 RSR-01 /129 W

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R 300630 Z MAR 73

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 9227

LIMITED OFFICIAL USE SECTION 1 OF 2 DACCA 1374/1

E. O. 11652: N/ A

TAGS: EFIN, BG

SUBJECT: INVESTMENT INFORMATION FOR SECRETARY'S FACT BOOK:  
BANGLADESH

REF: STATE A-1975

PASS OPIC, COMMERCE

1. RE CIRCULAR NOT RECEIVED HERE IN TIME FOR US TO PREPARE AND  
POUCH TO DEPT MATERIAL REQUIRED BEFORE APRIL 1 DEADLINE. HENCE  
THIS CABLE, GIVING TEXT ON INVESTMENT CLIMATE ( PARA 2) AND DETAILS  
PRIVATE DIRECT FOREIGN INVESTMENT ( PARA 3). OPIC REQUESTED TO  
CLEAR PARA 2 C AND REPORT ANY RECOMMENDED CHANGES.

2. INVESTMENT CLIMATE:

A. PEOPLE'S REPUBLIC BANGLADESH PROMULGATED INDUSTRIAL INVEST-  
MENT POLICY JANUARY 8, 1973, WHICH WELCOMES FOREIGN PRIVATE  
INVESTMENT BUT ONLY IN PARTNERSHIP WITH PUBLIC- SECTOR ENTERPRISES  
AND UP TO NO MORE THAN 49 PERCENT OF EQUITY. MAJOR INDUSTRY HAS BEEN  
NATIONALIZED, INCLUDING ALL JUTE MILLS ( FOREMOST INDUSTRY),  
COTTON AND OTHER TEXTILE MILLS, AND SUGAR MILLS, PLUS MOST  
INDUSTRIAL UNITS WITH MORE THAN \$200,000 EQUIVALENT IN ASSETS.

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TEA PLANTATIONS EXCLUDED. ACCORDING TO NEW POLICY, DOMESTIC PRIVATE- SECTOR FIRMS MAY NOT BE ALLOWED TO BUILD UP ASSETS TO AROUND \$300,000 . FOREIGN COLLABORATION WITH THESE FIRMS IS RESTRICTED TO LICENSING AND PATENTING.

B. MORATORIUM PLACED ON FURTHER NATIONALIZATION OF EXISTING ENTERPRISES FOR 10 YEARS AND NEW PLANTS FOR 10 YEARS AFTER STARTUP. COMPENSATION PROVIDED UNDER NATIONALIZATION ORDERS 1972 AND PROVISION REAFFIRMED IN INVESTMENT POLICY. BDG, HOWEVER, HAS YET TO WORK OUT PRECISE FORMULA FOR COMPENSATION NATIONALIZED INDUSTRIES ( OR ANY PROVISION AT ALL FOR PROPERTIES OWNED BY NON-BENGALIES WHO HAVE LEFT, WHICH WERE EXPROPRIATED UNDER ABANDONED PROPERTY). GOVT INTENDS PROVIDE ADEQUATE COMPENSATION FOR NATIONALIZED ASSETS; NO EVIDENCE TO DATE INTENTION SHALL NOT BE FULFILLED.

C. ( NO OPIC AGREEMENT WITH BANGLADESH. PENDING INDICATIVE ACTION BY BDG ON IMMINENT COMPENSATION CLAIM FOR NATIONALIZED U. S. JUTE MILL COVERED BY OPIC INVESTMENT GUARANTEE UNDER OLD OPIC AGREEMENT WITH PAKISTAN, USG NOT DISPOSED TO CONSIDER PROPOSING NEW AGREEMENT WITH BDG. NOR ARE OTHER OPIC FACILITIES - SUCH AS FINANCING TO U. S. COMPANY FOR PREINVESTMENT SURVEY - PRESENTLY EXTENDED BANGLADESH. POTENTIAL BASIS FOR FULL RANGE OPIC ASSISTANCE, HOWEVER, APPEARS TO EXIST .)

D. FOREIGN PARTNERS WITH PUBLIC- SECTOR EXPECTED TO PROVIDE ENTIRE AMOUNT FOREX COMPONENT OF INVESTMENT. IF OVER 49 PERCENT OF TOTAL, EXCESS FOREX TO BE SUPPLIED IN FORM OF NEGOTIATED LOAN. MANAGEMENT CONTRACTS A POSSIBILITY WITH FOREIGN PARTNERS FOR AGREED PERIOD UNTIL BENGALIES ADEQUATELY TRAINED UP. REMITTANCES BY FOREIGN PARTNERS ALLOWED OF ALL POST- TAX DIVIDENDS WITH A MINIMUM OF 15 PERCENT TO BE DECLARED ANNUALLY, SUBJECT TO AVAILABILITY OF PROFIT. REPATRIATION OF FOREIGN CAPITAL MAY BE INITIATED WITHIN FIRST 10 YEARS FROM STARTUP, TO BE SPREAD OVER PERIOD OF 10 YEARS.

E. NO LOCAL TAX HOLIDAY EXTENDED NEW INVESTMENT, BUT PROTECTION AGAINST DOUBLE TAXATION TO BE PROVIDED ON CONCLUSION OF AGREEMENT BY BD WITH FOREIGN INVESTOR' S COUNTRY. NO SUCH AGREEMENT SIGNED WITH U. S.

F. BDG COMMITTED TO DISPERSAL OF INDUSTRY, PARTICULARLY INTO UNDERDEVELOPED REGIONS, AND PROPOSES TO OFFER INCENTIVES FOR INVEST-LIMITED OFFICIAL USE

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MENT THERE, BOTH DOMESTIC AND FOREIGN ( IN JOINT/ PUBLIC SECTOR).

BDG ALSO INTERESTED IN EXPANSION PRODUCTION WAGE GOODS AND DEVELOPMENT OF PMPORT SUBSTITUTION, EXPORT AND AGRO- INDUSTRY. PRECISE FORMS OF ENCOURAGEMENT NOT YET SPELLED OUT.

G. TAX, TARIFF AND SUBSIDY POLICIES AFFECTING DIRECT FOREIGN INVESTMENT NOT INHIBITIVE . CORPORATE INCOME TAX IN RANGE 60 PERCENT; HIGH TARIFFS IMPOSED ON IMPORTS OF ITEMS PRODUCED IN COUNTRY; SUBSIDIES NOW PROVIDED INDUSTRIES IN DIFFICULT STRAITS - TEA PLANTATIONS, MATCH FACTORIES - AND ON ONE- TIME BASIS HAVE BEEN EXTENDED RAW JUTE EXPORTERS ( IN FORM OF REBATE OF EXPORT TAX, NOW ABOLISHED).

H. LABOR POLICY PROHIBITS STRIKES IN PUBLIC SECTOR. UNIONS TO BE ASSOCIATED WITH MANAGEMENT COUNCILS, TO BE COMPOSED OF TWO FROM MANAGEMENT, TWO FROM LABOR, AND ONE FROM CONCERNED FINANCIAL INSTITUTION.

I. MAIN PROBLEM FACED BY FOREIGN INVESTORS IS SECURING GOVERNMENT CLEARANCES, LICENSES, ETC., IN HIGHLY CENTRALIZED, EXTENSIVELY REGULATED, GOVERNMENT- DOMINATED ECONOMIC STRUCTURE. FOREX CONSTRAINTS IMPOSED ON ISSUANCE IMPORT LICENSES EVEN FOR NEEDED RAW MATERIALS, COMPONENTS, SPARE PARTS, ETC., THOUGH EXPORT INDUSTRIES ARE PROVIDED SPECIAL CONCESSIONS . NO GENERAL GOALS HAVE YET BEEN SET ON EXPORT REQUIREMENTS, BUT PRESSURE TO EXPORT PERCENTAGE OF PRODUCTION CERTAIN ITMES CAN BE ANTICIPATED FROM GOVERNMENT IN WORKING OUT JOINT- VENTURE AGREEMENT.

J. IN THIS YOUNG STATE, UNDER AN INDUSTRIAL INVESTMENT POLICY THAT HAS JUST BEEN ANNOUNCED, NO NEW JOINT VENTURES HAVE YET BEEN CONCLUDED. OLD JOINT VENTURES AWITH GOVERNMENT BODIES EXIST AND EXPERIENCE HAS NOT BEEN SATISFACTORY. DESPITE GOVERNMENT ' S DEDICATION TO SOCIALISM/ NATIONALISM, IT HAS ADOPTED PRAGMATIC ATTITUDE TOWARD PRIVATE SECTOR I BANGLADESH AND NEW FOREIGN PRIVATE INVESTMENT, RESERVING RIGHT TO NATIONALIZE, HOWEVER, IF INDUSTRIAL ENTERPRISE IS LOSING MONEY OR UNDERUTILIZING CAPACITY DUE TO NEGLIGENCE/ MISMANAGMENT OF OWNERS.

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FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

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R 300630 Z MAR 73

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 9228

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3. PRIVATE DIRECT INVESTMENT: ( ALL DATE POST ESTIMATES.)

A. U. S. DIRECT INVESTMENT STATISTICS: TOTAL BOOK VALUE ALL INDUSTRIES AT END 1971 - ABOUT \$10 MILLION. NO INFORMATION ON NET CAPITAL OUTFLOW, REINVESTED EARNINGS AND OTHER EARNINGS. EACH BELIEVED NEGLIGIBLE IN 1971, BECAUSE OF CIVIL STRIFE AND WAR ALMOST THROUGHOUT YEAR.

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B . NO BREAKDOWN OF \$10 MILLION CAN BE GIVEN WITHOUT IDENTIFICATION OF THE MAJOR COMPONENT, PETROLEUM, WHERE INVESTMENT IS ENTIRELY THAT OF SINGLE COMPANY, ESSO. FOR DEPARTMENT'S INFORMATION ONLY, POST COMPUTATION IS AS FOLLOWS:

I. MINING AND SMELTING: NONE.

II. PETROLEUM: ESSO, INCLUDING SHARE IN STANDARD ASIATIC LUBE BLENDING PLANT - \$2.5 MILLION.

III. MANUFACTURING: BANGLADESH FABRICS, ASSOCIATED BAGGING CORP., SQUIBB, PFIZER, SINGER, GALFRA- HABIB, DACCA TOBACCO ( PHILIP MORRIS)- \$6.6 MILLION ( ABC AND GALFRA- HABIB HAVE ABOUT \$2.2 MILLION EQUITY OWNED BY U. S. SUBSIDIARIES IN SWITZERLAND AND SCOTLAND, RESPECTIVELY.)

IV. OTHER INDUSTRIES: INTERCONTINENTAL HOTEL, INTERNATIONAL TANK TERMINALS, AMERICAN LIFE, AMERICAN EXPRESS, FIRST NATIONAL CITY BANK'S SHARE NATIONAL & GRINDLAY'S - \$1.7 MILLION.

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FOREGOING ARE EXTREMELY ROUGH ESTIMATES; MORE REFINED DATA NOT AVAILABLE. END LIMITED OFFICIAL USE.

C. DIRECT INVESTMENT IN U. S. BY BANGLADESHIS IN 1971 : NEGLIGIBLE - BANGLADESH NOT LIBERATED UNTIL DECEMBER 16, 1971; DIRECT INVESTMENT IN U. S. FORM HERE PROBABLY INCLUDED IN WHATEVER FIGURE MIGHT HAVE BEEN CITED FOR FORMER UNITED PKISTAN, WHICH ALSO PROBABLY NEGLIGIBLE.

D. DIRECT INVESTMENT BY ALL COUNTRIES: TOTAL, INCLUDING U . S. - ROUGHLY \$275 MILLION. BOOK VALUE AT END 1971 - OTHER COUNTRIES:

U. K. \$250 MILLION; WEST GERMANY \$10 MILLION; JAPAN \$2 MILLION.  
EMBASSY AND GOVERNMENT HERE HAVE NO READILY AVAILABLE ACCURATE  
INFORMATION ON FOREGOING. FIGURES ARE GUESSTIMATES.  
NEWBERRY

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

## Message Attributes

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